



OFFICE OF THE GOVERNOR

November 14, 2001

To: Agency Secretaries
Department Directors
Constitutional Officers

As you know, California is facing the steepest decline in state income in more than half a century. California's economy, which was beginning to slow before the September 11th tragedy, has been dramatically affected by the results of the terrorist attacks. Even though California continues to outperform the rest of the nation in virtually all economic indicators, the effects of the attacks have severely undermined consumer confidence, tourism, and other businesses.

Prior to September 11th, the Legislature and my Administration took steps to address an anticipated shortfall, including setting aside the largest reserve fund in two decades. In the aftermath of September 11th, I also directed each department and agency to freeze new hiring, cut operating expenses by \$150 million, and prepare 15 percent budget reductions for the 2002-03 fiscal year.

However, the extraordinarily rapid decline in State revenues requires additional reductions in current year spending. I have discussed options for achieving current year savings with the legislative leadership and will submit to the Legislature a revision of the 2001-02 State Budget for consideration during an Extraordinary Session commencing in January.

Until the Legislature is convened in Extraordinary Session, I am directing each agency and department to take all actions permitted under law to suspend allocation of those current year expenditures listed in the attached document. Administratively "freezing" these expenditures will capture the proposed savings now and preserve the Legislature's ability to consider and act on these revisions along with other budget year reductions when it convenes in January.

In preparing this proposed budget revision, the Administration has taken care to avoid suspending any expenditure that may provide economic stimulus in the near term. If any agency secretary or department director determines that it is not legally permissible to suspend allocation of funds for a particular program, or that the suspension would cause further economic harm, I direct him or her to contact the Department of Finance to review the matter.

Sincerely,

A handwritten signature in black ink that reads "Gray Davis". The signature is stylized, with a large, bold "G" and "D".

Gray Davis

**PROPOSED
REDUCTION
in 2001-02
SPENDING**



GRAY DAVIS, GOVERNOR

STATE OF CALIFORNIA

NOVEMBER 2001

OVERVIEW

The U.S. and California economies are experiencing a significant slowdown. As a result, the State General Fund is experiencing a dramatic decline in revenue that necessitates prompt action to curb current-year General Fund spending beyond the hiring freeze and operating expense and equipment expenditure reductions already ordered pursuant to Governor's Executive Orders D-48-01 and D-49-01.

This document proposes a number of current-year General Fund spending reductions totaling \$2.248 billion, which also represent \$758 million in additional potential budget-year savings. In addition to the \$13 million attributable to the hiring freeze and the \$150 million attributable to the state operations reductions, the specified reductions are comprised of proposals to suspend program expansions, delay new program implementation, capture savings from contracts and grants yet to be bid or awarded, defer purchases, and revert unspent funds. No reductions have been proposed for programs that provide immediate-term stimulus to the State's economy.

ECONOMIC UPDATE

California's economy, already slowing prior to the terrorist attacks of September 11th, shows further signs of weakening, with prospects for a prompt recovery dimmed as a result of the attacks. However, California continues to outperform the rest of the nation in virtually all economic indicators.

Although the state's 4,300 drop in nonfarm jobs amounted to only 1 percent of the nationwide loss of 415,000 jobs last month, the slowing of job growth in California over the last several months has been dramatic. California's unemployment rate rose 0.3 percent to 5.7 percent in October, with the unemployment rolls growing by 47,400. Nationally, the jobless rate jumped 0.5 percent to 5.4 percent. California's air transportation and lodging industries appear to have suffered more than other sectors since the September 11th attacks, losing 4,300 jobs, or 10 percent of the national losses, and 3,500 jobs, or 8 percent of the national losses, respectively. Prior to September 11th, the Silicon Valley and San Francisco Bay Area were already slowing markedly as a result of the decline in activity in the high-tech sector. Additionally, September construction data indicate building activity slowed dramatically, with both residential and nonresidential construction experiencing the weakest month of the year.

The Department of Finance's 2001-02 May Revision economic forecast, on which the current-year budget is based, was more conservative than the consensus at the time, projecting very slow growth throughout 2001, with stronger growth beginning early next year. However, the terrorist attacks of September 11th will result in continued economic weakness through at least the first half of 2002. Moreover, weaker stock market performance in the second half of 2001 will contribute to a significant decline in current-year revenues.

REVENUE UPDATE

October General Fund revenue receipts were \$220 million below the 2001 Budget Act forecast. To date, fiscal year 2001-02 General Fund revenues are \$827 million below expectations. Combined with our preliminary estimate of \$614 million in lower-than-projected accrued revenues for the prior fiscal year, the total fiscal year-to-date and prior-year shortfall is over \$1.4 billion.

October personal income tax receipts were \$209 million below projection. Withholding was \$60 million below the forecast, and refunds were \$128 million higher than anticipated. Sales and use tax receipts were \$7 million below the month's forecast, and bank and corporation tax receipts were \$10 million below the forecast.

EXPENDITURE REDUCTIONS

BUSINESS, TRANSPORTATION AND HOUSING AGENCY

Department of Housing and Community Development

-\$108.9 million

Eliminate Jobs/Housing Balance Program: This new program would provide incentive payments to cities and counties that increase the number of housing permits they issue in calendar year 2001. The program would not begin awarding its first grants until February 2002 from funds provided in the 2000 Budget Act. It is proposed that the program's entire balance of \$59.7 million for incentive grants be returned to the General Fund.

Eliminate Downtown Rebound Program: This program has \$1 million available to local entities for planning studies to find infill sites in urban areas, and \$3.1 million for loans to local entities for projects that convert industrial and commercial buildings to residential use. It is proposed that these funds be returned to the General Fund.

Reduce Multifamily Housing Loans: This is a general-purpose loan program for construction and rehabilitation of affordable multifamily housing. It is proposed that the \$89 million available for this program in 2001-02 be reduced by \$45.1 million, which is the amount projected to be loaned to projects that would not begin construction until 2003. This preserves \$43.8 million for projects that can stimulate California's economy in fiscal year 2002-03.

Department of Transportation

-\$20.0 million

Shift Fund Source for Intercity Rail Projects from the General Fund to the State Highway Account: It is proposed that the remaining balance of a 2000-01 appropriation of \$20 million from the General Fund for a double-tracking project on the San Joaquin Corridor be replaced with an appropriation from the State Highway Account. Expenditures for this long-lead project are not likely to be significant until fiscal year 2002-03.

Department of Motor Vehicles

-\$117.7 million

Revert Unneeded Funds Set Aside for Smog Impact Fee Refunds: This program refunds the \$300 fee that was charged to bring an out-of-state car into California from 1990 to 1999. This fee found to be illegal by the courts, and an appropriation of \$665 million from the General Fund was made in 2000-01 to create a special fund for refunds. That amount was based on an estimate of the total number of persons who may have paid this fee. However, the Department's latest estimate of the amount of refunds likely to be paid shows that \$117.7 million in expected savings can be returned to the General Fund. This reduction will not affect any right to a refund if one was claimed.

TECHNOLOGY, TRADE AND COMMERCE AGENCY

-\$35.9 million

Reduce Biomass Grants Program: This three-year program provides grants to operators of plants that convert biomass fuels to energy, helping those plants to compensate for lower electricity sales prices that applied to them when they were built. In 2000-01, grants were awarded to 12 plants totaling over \$8.9 million. Applications for these funds for 2001-02 are not due until November 28. It is proposed that the \$5.5 million of the \$11.5 million available in 2001-02, be reverted to the General Fund, retaining sufficient funding to keep previous-year grantees operating.

Eliminate Funds for Two Unopened Foreign Trade Offices: The 2001 Budget Act contains funding of \$297,000 for a contract for representation in India and \$160,000 for a contract for an office in the Philippines. The TTCA has not yet opened new trade offices in India and the Philippines. Therefore, it is proposed that these funds be reverted.

Revert Balance of Renewable Energy Loan Guarantee Fund: Chapter 8, Statutes of 2001, First Extraordinary Session (AB 29X), created a new Renewable Energy Loan Guarantee program. Because of a technical drafting error in the way funds were appropriated to pay banks in the event of defaults on guarantees in the authorizing legislation, funds cannot be committed for the life of the loans, and the program cannot be implemented. It is proposed to revert the \$29.9 million that remains available for this program.

RESOURCES AGENCY

Secretary for Resources

-\$11.0 million

River Parkway Program: The Administration proposes to eliminate funding for the following River Parkway projects:

Los Angeles River–South: \$5 million
Tuolumne River Parkway: \$5 million
Otay River Parkway: \$1 million

Tahoe Conservancy

-\$4.8 million

Land Acquisitions: Of the \$8.2 million in the 2001 Budget Act for acquisitions to prevent degradation of water quality that would occur if the lands were developed, or to restore lands at already degraded sites, agreement has been reached to acquire a piece of property for \$3.4 million. The balance of \$4.8 million has not been encumbered and is proposed for reversion to the General Fund. These land acquisitions may be eligible for funding from future bond proceeds.

California Conservation Corps

-\$3.2 million

AB 29X, Powerwalk Program: Chapter 8, Statutes of 2001, First Extraordinary Session (AB 29X) appropriated \$20 million to the Corps to disseminate energy conservation information and low energy light bulbs to California residents. To date, \$16.1 million has been expended. The balance of \$3.2 million is proposed for reversion.

Energy Commission

-\$34.6 million

Agricultural Peak Load Demand: Chapter 7, Statutes of 2001, First Extraordinary Session (SB 5X) appropriated \$86.3 million to provide grants to the agriculture industry to install energy efficient hardware and other conservation mechanism to reduce peak electricity load demands. Of this amount, \$29.4 million has not been encumbered and is available for reversion to the General Fund.

Expedited Power Plant Siting Applications: Chapter 12, Statutes of 2001, First Extraordinary Session (SB 28X), appropriated \$3 million to help cities and counties expedite reviews of electrical power plant siting applications by hiring consultants and training local employees who would specialize in power plant siting issues. The program, however, has been slow to develop, and none of the funding has been encumbered.

Data Collection and Fuel Cell Planning: The 2001 Budget Act includes \$0.3 million for preliminary drawings for hydrogen fueling stations and \$1.9 million for electricity consumption data collection, none of which has been encumbered. Therefore, these funds are proposed for reversion.

Department of Conservation

-\$4.5 million (Includes \$3.0 million from prior years.)

Farmland Conservancy Program: This program provides grants to purchase easements on agricultural lands to reduce development pressures. The 2001 Budget Act includes \$1.5 million General Fund and \$5 million Parks Bond. None of the \$1.5 million has been encumbered, nor has the \$1.5 million General Fund appropriation from each of the past two years been spent. Any potential near-term agreements can be funded from the bond funds already appropriated.

Department of Parks and Recreation

-\$44.2 million (Includes \$42.2 million from prior years.)

Cesar Chavez Foundation: The 2001 Budget Act includes \$2 million to construct a park and visitor center in Delano. To date, no application requesting this funding has been received. The Administration proposes to fund this project from future bond proceeds.

Prior Year Local Parks Projects: Funding for local parks projects was provided in the 1999 and 2000 Budget Acts for which no requests have been received. The Administration proposes to revert \$42.2 million appropriated for these projects. Details for specific projects for which funding is proposed for reversion will follow.

Department of Water Resources

-\$14.0 million

Power Plant Construction Bonuses: Under the Administration's Energy Initiative, \$20 million was made available to provide construction bonuses for power plants that came on line by summer 2001. Bonuses were limited to \$1 million per project. Bonuses have been paid for three plant projects, and three more projects are pending. Since no other projects are now eligible for this funding, \$14 million can be reverted to the General Fund.

CALFED

-\$20.0 million

CALFED Grants: The 2001 Budget Act includes \$81 million, less \$3.5 million for Section 3.9 reductions, for CalFed projects. The remaining \$77.5 million is for State staff (\$50.8 million) and local water projects (\$26.7 million). Of the \$26.7 million available for local water projects, \$4 million has been committed. Therefore, savings of \$20 million could be readily achieved in 2001-02.

California Alternative Energy and Advanced Transportation Financing Authority

-\$24.9 million

Renewable Energy Program—AB 29X: Chapter 8, Statutes of 2001, First Extraordinary Session (AB 29X), appropriated \$25 million to the California Alternative Energy and Advanced Transportation Financing Authority for purposes of establishing the Renewable Energy Program. To date, none of the funds have been allocated, and only a minimal amount has been expended towards administrative activities. Suspending the allocation will save the General Fund 24.9 million.

Public Utilities Commission

-\$93.4 million

Oil and Natural Gas Pumping. Chapter 7, Statutes of 2001, First Extraordinary Session (SB 5X) appropriated \$9.6 million to conduct energy efficiency audits of various oil and natural gas facilities. To date, none of these funds have been encumbered and are available for reversion to the General Fund.

CARE Discount: This program has been funded for several years from public goods charge moneys to subsidize 15 percent of low-income consumers' utility bills. As part of the Energy Initiative, the program was essentially doubled with a \$100 million General Fund appropriation from Chapter 7, Statutes of 2001, First Extraordinary Session (SB 5X) to cover rapidly increasing energy bills and expand the program to a greater segment of the population. To date, \$14 million has been encumbered for outreach efforts. Due to the significant drop in energy costs related in part to lower natural gas prices, \$83.8 million could be reverted.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

Air Resources Board

-\$14.4 million

Diesel Emissions Reductions/Environmental Justice Initiative: Of \$48 million appropriated for diesel emission reduction programs, \$16 million was appropriated for mitigation of emissions from diesel-fueled electrical backup generators. To date, \$14.4 million has not been encumbered because backup generators were not used to the extent originally expected.

Department of Toxic Substances Control

-\$44.0 million

Brownfields Initiative: For 2001-02, \$52 million was available for this program which provides low-interest loans to help pay for environmental investigations and clean up hazardous materials to stimulate redevelopment of brownfield properties. To date, however, only \$8 million has been expended, leaving \$44 million unencumbered.

HEALTH AND HUMAN SERVICES AGENCY

Emergency Medical Services Authority

-\$30 million General Fund

Local Assistance for Trauma Care: The 2001 Budget Act included a one-time augmentation of \$25 million General Fund for local trauma center support, and \$5 million General Fund for trauma system planning activities. These funds have not been expended to date, and the Administration is proposing to revert these funds back to the General Fund.

Department of Aging

-\$0.1 million General Fund

Chapter 682, Statutes of 2001 (AB 830): Chapter 682 requires the California Department of Aging (CDA) to establish a task force, conduct a study, and make recommendations to the Legislature on or before September 1, 2002, on issues relating to legal services to seniors in California. This measure appropriates \$100,000 General Fund. However, the Governor's signing message directs the CDA "to establish the task force within existing resources." Therefore, the \$100,000 appropriation will not be expended.

Department of Alcohol and Drug Programs

-\$10.5 million General Fund

Drug Medi-Cal Savings: The 2001 Budget Act included a reappropriation of \$23.7 million General Fund carried forward from 2000-01. Of this amount, only \$13.2 million is needed to pay past-year claims received in 2001-02. Therefore, the Administration proposes that \$10.5 million

be reverted, resulting in General Fund savings based on an updated estimate of funds needed to meet past-year obligations. This proposal maintains \$13.2 million to pay past-year claims.

Department of Health Services

-\$17.6 million General Fund

Cancer Research: The 2001 Budget Act provided a \$25 million General Fund transfer for the Cancer Research program. It is now proposed that expenditures be reduced to \$17.9 million, resulting in a General Fund savings of \$7.1 million. This reduction represents a very small proportion of the estimated \$3.1 billion available nationally for these activities from private institutions, the federal government, and foreign governments.

Expanded Access to Primary Care (EAPC) Augmentation: The 2001 Budget Act provided \$31.2 million (\$23.5 million General Fund), including a \$10 million augmentation, to reimburse public clinics for their cost of providing uncompensated health care. This augmentation remains unexpended and is proposed to be reverted. This proposal would maintain the \$21.2 million base funding for the EAPC program.

Bi-National Health Initiative: The 2001 Budget Act provided \$1 million for a Bi-National Health Initiative to be used by the California Office of Bi-National Border Health in its mission to facilitate cooperation between health professionals in California and Mexico. Of that amount, \$470,000 has been allocated in 2001-02. Therefore, the Administration proposes to revert \$530,000 in unexpended funds for this Initiative.

Managed Risk Medical Insurance Board

-\$54.3 million Tobacco Settlement Fund

Healthy Families Program Parent Expansion: The 2001 Budget Act provided \$150.2 million (\$61.8 million Tobacco Settlement Fund) to expand the Healthy Families Program (HFP) to include the uninsured parents of Medi-Cal and HFP children with family incomes up to 250 percent of the federal poverty level. It is now proposed that this program be delayed until July 2003, resulting in savings of \$54.3 million Tobacco Settlement Fund in 2001-02 and \$160.5 million Tobacco Settlement Fund in 2002-03. Federal approval of the HFP parent expansion is still pending. Therefore, it is unlikely State implementation of the parent expansion would occur in 2001-02.

Department of Mental Health

-\$0.4 million General Fund

Revert a Portion of Funding for Dual Diagnosis: The 2001 Budget Act provided \$1.9 million General Fund for three dual diagnosis pilot projects. Only \$1.5 million has been allocated for two pilot projects, and \$400,000 remains unallocated and available for reversion, without affecting current service levels.

Department of Community Services and Development

-\$58.2 million General Fund

California Low-Income Home Energy Assistance Program (LIHEAP): Chapter 7, Statutes of 2001 (SB 5X) appropriated \$120 million General Fund to provide energy bill assistance and weatherization services to certain needy households and small foster care group homes. This funding is available for expenditure through January 2005. The Department of Community Services and Development expended \$21.9 million in 2000-01, and is scheduled to spend \$75.7 million in 2001-02. Of this amount, approximately \$31.3 million will not be encumbered by January 1, 2002. The balance, \$22.4 million, is planned for expenditure in subsequent years. Given the current decline in revenues, and the General Fund shortfall, this \$53.7 million is proposed for reversion in 2001-02.

Revert Naturalization Services Program Funding: The 2001 Budget Act provided \$6.5 million General Fund (\$0.3 million state operations and \$6.2 million local assistance) for this program. Contracts have not been executed with community-based organizations to perform services under this program in 2001-02. Funding for this program has increased by 225 percent since 1998-99. Therefore, the Administration proposes that funding for this program be returned to the 1998 level of \$2 million, resulting in General Fund savings of \$4.5 million in 2001-02.

Department of Child Support Services

-\$40.5 million General Fund

Local Child Support Administration Incentives: Counties did not expend \$30.5 million General Fund of the State child support incentive funding appropriated for local administration in the 2000 Budget Act. Additionally, \$10 million General Fund appropriated for this purpose in the 2001 Budget Act also remains unallocated. Therefore, it is proposed that these funds be reverted to the General Fund in 2001-02, for a total General Fund savings of \$40.5 million.

Department of Social Services

-\$30.1 million General Fund

Foster Care Supportive Transitional Emancipation Program: The 2001 Budget Act included \$6.5 million General Fund to provide ongoing financial assistance to youth emancipating from foster care. Based on current caseload projections for the program, current year expenditures will be only \$1.5 million, and the remaining \$5 million may be reverted with no program impact. Therefore, it is proposed that \$5 million be reverted to the General Fund.

Foster Care Transitional Housing Placement Program: The 2001 Budget Act provided \$10 million General Fund for this three-year program which provides supervised independent living arrangements that prepare youth in foster care to live on their own. Based on current caseload projections, the combined cost for 2001-02 and 2002-03 will be \$5.2 million, leaving a balance of \$4.8 million available for reversion. Therefore, the Administration proposes that the \$4.8 million be reverted to achieve General Fund savings in 2001-02.

Child Welfare Services: Actual county expenditures for Child Welfare Services in 2000-01 were \$19 million General Fund less than the amount appropriated. Therefore, this amount can be reverted with no program impact.

Child Welfare Services Training: This training program was established by Chapter 1310, Statutes of 1987 (SB 834), to provide a statewide coordinated program designed to address the specific needs of county child welfare services social workers. The 2001 Budget Act provided \$3.3 million General Fund for this purpose. The Administration proposes that the unencumbered balance of \$1.3 million be reverted in 2001-02.

Various Departments

-\$19.1 million General Fund

Health Insurance Portability and Accountability Act (HIPAA): The 2001 Budget Act and Chapter 635, Statutes of 2001 (SB 456), provided a total of \$92.3 million (\$24.3 million General Fund) for various departments to fund HIPAA compliance activities. Expenditures through December 31, 2001, are anticipated to be significantly less than the amount appropriated. Therefore, the Administration proposes that \$74.2 million (\$19.1 million General Fund) be reverted. California, along with the National Governors' Association, is currently seeking a federal extension of HIPAA compliance deadlines.

YOUTH AND ADULT CORRECTIONS

Office of the Inspector General

-\$.1 million

Augmentation to Establish Administrative Support Unit: The 2001 Budget Act included \$520,000 to establish an Administrative Support Unit and contract for information systems support. To date, four of the five positions in the Administrative Support Unit have been filled. The Administration proposes to revert \$55,000 from the funds appropriated to support the operations of the Unit.

Department of Corrections

-\$1.6 million

Partial Delay of Implementation of the 500-Bed Substance Abuse Program Expansion: The 2001 Budget Act provided \$3.9 million for an additional 500 in-prison substance abuse treatment beds and associated aftercare funding for post-release treatment. The Department indicates that only 300 of the beds will be brought online in the current year, which results in \$1.6 million savings from the remaining 200 beds that will not be activated until fiscal year 2002-03.

Department of Youth Authority

-\$4.5 million

Implementation of the Substance Abuse Program Expansion: The 2001 Budget Act included \$720,000 to fund treatment slots for institutional substance abuse treatment for wards and residential aftercare treatment for parolees. The contracts associated with these services have not been signed to date, and it is now proposed that the program be modified to provide only residential aftercare treatment for parolees. Therefore, only \$200,000 is needed, and \$520,000 is proposed to be reverted.

Implementation of the Sex Offender Specialized Counseling Program Expansion: The 2001 Budget Act included \$2.8 million to establish a 50-bed formal sex offender treatment program at the N. A. Chaderjian Youth Correctional Facility and provide 35 residential aftercare services placement beds. To date, the Department has expended a minimal level of resources for this program which will be modified to provide funding only for the 35 residential aftercare placement beds. Therefore, \$1,960,000 is proposed to be reverted.

Implementation of the Mental Health Resources Program Expansion: The 2001 Budget Act included \$4,306,000 to expand the existing level of mental health services provided to wards and parolees. To date, the Department has expended a minimal level of resources for this program which will be adjusted to provide a 35-bed mental health unit and related parolee services. Therefore, \$2,067,000 is proposed to be reverted.

EDUCATION

Department of Education

-\$843.5 million

The Administration proposes the following reductions in the Department of Education's budget:

Healthy Start Grants: \$38 million of the \$39 million Proposition 98 General Fund appropriation for a new cohort of Healthy Start sites that will not affect existing programs.

Charter School Facilities Grants: \$5 million of the \$10 million in Proposition 98 General Fund appropriated for facility grants to charter schools in low-income attendance areas pursuant to Chapter 892, Statutes of 2001 (SB 740). Funding for this purpose has not been allocated, and savings from non-classroom instruction charters will be reduced to no more than 5 percent pursuant to the Governor's intent.

PERS Offset for K-12 Revenue Limits: \$35 million in Proposition 98 Reversion Account appropriated for reduction of the PERS offset to revenue limits pursuant to Chapter 794, Statutes of 2001 (SB 6) in order to suspend implementation until funding for this purpose is appropriated in a subsequent Budget Act. Funding has not yet been allocated.

K-12 Revenue Limit Equalization Adjustment: \$40 million in Proposition 98 Reversion Account appropriated in Chapter 891, Statutes of 2001 (SB 735) for purposes of equalization of district revenue limits pursuant to Chapter 794, Statutes of 2001 (AB 441) in order to suspend implementation until funding is appropriated in a subsequent Budget Act. Funding has not yet been allocated.

Before/After School Expansion: \$29.7 million from the Proposition 98 General Fund appropriated for expansion of the Before and After School Learning and Safe Neighborhoods Partnership Program, including \$14.85 million for a new Before School component authorized by Chapter 545, Statutes of 2001 (AB 6) in order to delay implementation. Funding has not yet been allocated for the new component, and costs have not been incurred by districts for the After School expansion.

High Priority Schools Grant Program: \$197 million local assistance appropriation to reflect a July 1, 2002, implementation date for the High Priority Schools Grant Program Chapter 749, Statutes of 2001 (AB 961). This program was designed to improve the academic performance of pupils in schools in the bottom five deciles, with priority being provided to the lowest performing schools. Funding for this program has not been allocated. Eligible schools would receive grants beginning in 2002-03.

Beginning Teacher Support and Assessment Program: \$20 million for the Beginning Teacher Support and Assessment Program, which provides teachers with two years of mentoring and support after they earn a preliminary teaching credential. This program is currently funded at \$104.6 million. It is anticipated there will be \$20.0 million in savings in this program.

Peer Assistance and Review Program: \$50 million for the Peer Assistance and Review Program (PAR), which provides mentoring services to veteran teachers who encounter professional difficulties. This program is currently funded at \$134.2 million, school districts also may use PAR funds to supplement the Beginning Teacher Support and Assessment Program, the California Pre-Internship Teaching Program, or any other program that provides training and support to new teachers. The funding reduction reflects a decrease in the number of PAR participants.

National Board for Professional Teaching Standards Certification Incentives: \$5 million for the National Board for Professional Teaching Standards (NBPTS) Certification Incentives Program, which provides teachers who earn certification by this organization with \$10,000 bonuses. NBPTS-certified teachers who agree to teach in low-performing schools are provided an additional \$20,000 bonus, which is payable over a four-year period. Based on expenditures in the past, it is anticipated that there will be unutilized funds in 2001-02.

Teaching As A Priority Block Grant: \$20 million for the Teaching As A Priority block grant, which provides schools ranked in the bottom five deciles of the Academic Performance Index (API) with grants to provide recruitment and retention bonuses to fully credentialed teachers. Participating schools that are ranked in the bottom three deciles of the API currently receive \$44.00 per student, while schools ranked in the fourth and fifth deciles receive \$29.00 per student. It is anticipated this program will have savings in 2001-02.

High School Coach Training: \$1 million for the High School Coach Training Program, which is intended to provide high school coaches with training in safety-related topics such as CPR. Expenditure records indicate that this program has not been utilized.

Certificated Staff Performance Awards: \$50 million for the Certificated Staff Performance Awards Program, which provides bonuses ranging from \$5,000 to \$25,000 to certificated staff in schools that achieve significant, sustained growth in their API scores over a two-year period. The number of rewards will be reduced to the following levels.

- 500 certificated staff receive bonuses of \$25,000 each
- 1,875 certificated staff receive bonuses of \$10,000 each
- 3,750 certificated staff receive bonuses of \$5,000 each

Professional Development Institute Stipends: \$6 million of the General Fund appropriation for stipends. The 2001-02 Budget, which contains \$54.0 million to provide \$1,000 stipends to teachers who attend the University of California-administered Professional Development Institutes (PDI). These savings in stipend payments conform to anticipated demand for the PDI by school districts.

K-12 Per Pupil Block Grant: \$67.8 million appropriation in Proposition 98 Reversion Account for the K-12 Per Pupil Block Grant program, which provides grants of \$12 per pupil to all school districts and county offices of education to be spent on a variety of categorical programs.

High Tech High: Delete \$4 million of the \$10 million from the Proposition 98 Reversion Account for the High Tech High grants to reflect a reduced level of funding for High Tech High Schools anticipated to open in Fall 2002. To date, none of the funds have been allocated.

Digital High School: \$15 million Proposition 98 for the Digital High School program. This program provides approximately \$45 per pupil for technical support and professional development in participating schools. The program has not spent its entire \$76 million budget allocation in the past, and this proposal reflects program savings resulting from less than anticipated participation.

One-Time Energy Relief Funding: \$250 million Proposition 98 General Fund for energy relief for K-12 schools. These funds were provided on a one-time basis to address higher than anticipated energy costs. This funding has not yet been allocated to schools. Given that energy costs have not increased as much as expected due, in part, to lower natural gas prices, this funding can be eliminated in 2001-02.

9th Grade Class Size Reduction Program Savings: \$10 million Proposition 98 General Fund for the 9th Grade Class Size Reduction Program. The 2001 Budget Act appropriated \$145.2 million to allow schools to reduce 9th Grade English and one other core class to a 20:1 ratio. Program participation has been less than anticipated this year, resulting in at least \$10 million in program savings.

California State Library

-\$7.9 million

Public Library Foundation: The Public Library Foundation Program provides grants to local libraries, based on population and the amount of funding provided through the budget. The 2001 Budget Act contains \$52.9 million for this program. Local libraries use the funds for acquiring library materials, staff, operating expenses and equipment. To date, none of the funds have been allocated. The Administration proposes to revert \$7.9 million (approximately 15 percent) of the General Fund appropriations.

HIGHER EDUCATION

California Community Colleges

-\$5.0 million

Teacher and Reading Development Partnerships: The Administration proposes to reduce \$5 million of the \$10 million Proposition 98 Reversion Account appropriation for Teacher and Reading Development Partnerships. This program, which encourages undergraduate college students to seek teaching careers while advancing K-12 reading improvements, has not been fully subscribed. Remaining funds would support grants at many colleges.

University of California

-\$86.0 million

Shift Fund Source for Science Institutes to Bonds: The 2001 Budget Act appropriates \$95 million from the General Fund for the University of California Institutes for Science Innovation. At least \$50 million can be shifted to Lease Revenue Bonds.

Teaching Hospitals: The Administration proposes to revert \$5 million for clinical teaching support at the University's medical centers, neuropsychiatric institutes, and dental clinics. These funds were provided in the 2001 Budget Act and have not yet been fully expended.

Natural Gas Funds: The Administration proposes to revert \$25 million of the \$75.6 million appropriated for unanticipated increases in natural gas costs in 2000-01 and 2001-02. Energy costs have not increased as anticipated due, in part, to lower natural gas prices. The University may reduce non-impacted campus allocations as necessary to achieve an equitable reduction with regard to energy cost pressures.

Professional Development Institutes: The Administration proposes to revert \$6 million of the \$56.9 million appropriated for teacher training to conform to anticipated demand from K-12 districts. A similar reduction for related stipends is being proposed in the Department of Education's budget.

California State University (CSU)

-\$20 million

Natural Gas Funds: The Administration proposes to revert \$20 million of the \$34.1 million appropriated for unanticipated increases in natural gas costs in 2000-01 and 2001-02. Energy costs have not increased as anticipated due, in part, to lower natural gas prices. The CSU may reduce non-impacted campus allocations as necessary to achieve an equitable reduction with regard to energy cost pressures.

GENERAL GOVERNMENT

Department of Information Technology

-\$0.7 million

Delay Office Move: This reduction reflects 2001-02 savings from delaying the Department of Information Technology's relocation. Since the department has not committed these funds, the total is available for reversion.

Office of Emergency Services

-\$1.0 million

The Administration proposes the following reversion:

Tri-Net Expansion Statewide: \$1.0 million which was to support the expansion of the earthquake monitoring system currently in operation in Southern California to Northern

California. These funds are available for reversion since no expenditures have been made at this time.

Department of Consumer Affairs

-\$44.0 million

Consumer Assistance Program: The Administration proposes to transfer \$44 million from the High Polluter Repair or Removal Account to the General Fund. These funds reflect the remaining monies, plus interest, collected from the Smog Impact Fee.

Office of Criminal Justice Planning

-\$82.0 million

Los Angeles Crime Laboratory: This reduction reflects the estimated cost of construction for the Los Angeles regional crime laboratory authorized by the 2000 Budget Act. The construction phase of the laboratory project is not expected to commence until 2003-04. Funding for construction costs will be shifted to state-financed lease revenue bonds, and ultimate ownership of the facility will be transferred to the City of Los Angeles and Los Angeles County at the end of the financing term.

California Arts Council (CAC)

-\$5.1 million

CAC Grant Funds: The Administration proposes to revert \$5.1 million from the California Arts Council for local grants to assist art programs, artists, and local arts councils. This remains to be allocated to local agencies and is, therefore, available for reversion.

Department of Industrial Relations

-\$1.0 million

Eliminate Worker Safety Training Grant Program: This reduction reflects savings resulting from the elimination of the Worker Safety Training Grant Program, which was established in the 2001 Budget Act to award grants to organizations that provide training for workers in high hazard industries. Funding for this program has not yet been allocated. Therefore, the monies can be reverted.

Military Department

-\$2.1 million

Turning Point Academy: This reduction reflects the savings associated with decreased Academy expenditures resulting from a lower projected cadet population.

STATEWIDE

Statewide Janitorial/Contract Services

-\$2.0 million

Reduce Unallocated Janitorial/Contract Services Balance: This reduction reflects a portion of the unallocated balance from a statewide budget item that provided for the allocation of up to \$3.0 million to fund the increased cost of personal services contracts as a result of providing employee benefits to various categories of contract personnel. Since these monies have not yet been allocated, they are available for reversion.

Statewide Utilities Costs

-\$64.2 million

Eliminate Utilities Costs Funding: This reduction reflects the savings associated with the elimination of a statewide budget item that provided for the allocation of up to \$64.2 million to departments experiencing increases in utilities costs. This item is being eliminated due to decreases in the cost of gas and electricity from levels projected during the 2001-02 budget development process.

Postage Rate Increase

-\$3.0 million

Requests for the 2000-01 and 2001-02 fiscal year augmentations from the statewide postage rate increase item are lower than initial budget estimates, resulting in a statewide savings over two years of \$3.0 million.

Hiring Freeze

-\$13.2 million

The Governor issued Executive Order D-48-01 to implement a hiring freeze for State agencies and departments. Since the hiring freeze prohibits the use of new hires to fill State positions, excluding specified positions related to public health, safety, or security, and other positions producing State revenues, the hiring freeze is estimated to result in General Fund savings of up to \$13.2 million for the remainder of 2001-02.

Reduction in Operating Expenses and Equipment

-\$150.0 million

The Governor's Executive Order D-49-01 directs departments to initiate various cost reduction measures to effect a minimum \$150.0 million statewide reduction in current year operating expenses and equipment costs. These cost reduction measures include canceling or postponing any non-essential trips; reducing, canceling, or postponing any new contract or agreement for goods and services; and when possible, canceling and disencumbering the balance of any existing contract or purchase agreements. The objective of this cost reduction measure is to achieve a statewide savings of at least \$150.0 million.

Past Years Disencumbrances

-\$25.0 million (for 2001-01 and 1999-00)

In accordance with the Governor's Executive Order D-49-01, departments were directed to cancel certain prior-years contracts and purchase orders for which goods and services had not been received and disencumber the balance. Savings are estimated at \$25.0 million on a statewide basis.

Local District Projects

-\$30.0 million

The 2001 Budget Act included a total of \$65.5 million General Fund for local district projects. It is possible that up to 50 percent of the funding has not been allocated. Reverting the unallocated funding will save the General Fund approximately \$30 million. Details relating to specific projects for which funding is proposed to be eliminated will follow. It is the intent of the Administration to establish an exemption mechanism to ensure that projects for which resources have been committed are not jeopardized where a reduction in funds would result in a loss of jobs.